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No. 87-878

IN THE
Supreme Court of the United States
OCTOBER TERM, 1987

ROBERT I. SCHATTNER, d/b/a
"THE SPORICIDIN COMPANY,"
Petitioner,

v.

UNIDISCO, INC., THE VERATEX CORPORATION,
and CHEMED CORPORATION,
Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

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BRIEF FOR RESPONDENTS IN OPPOSITION TO PETITION

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COUNTERSTATEMENT OF QUESTIONS PRESENTED

I. Was petitioner deprived of any constitutional right to a jury trial where the Court of Appeals held, as a matter of law based on undisputed facts, that one cannot be liable for patent infringement for reselling a product purchased from a licensee under the patent?

II. Was petitioner deprived of any constitutional right to a jury trial where the alleged bases for the argument raised in the petition are not supported by the record below, were not raised in the Court of Appeals, and/or were not submitted to the jury as bases for liability?

III. Can the Court of Appeals be faulted for not adopting petitioner's "general law of unfair competition" argument as the law of the District of Columbia where the District of Columbia courts have in the past rejected petitioner's argument?

STATEMENT PURSUANT TO RULE 28.1

Respondents' parent, subsidiary, and affiliated corporations are: Omnicare, Inc.; Roto-Rooter Corporation; and National Sanitary Supply Co.

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BRIEF FOR RESPONDENTS IN OPPOSITION TO PETITION

STATEMENT OF THE CASE

This case arose from the petitioner Schattner's counterclaim for patent infringement, tortious interference with contract, and unfair competition, wherein Schattner sought to turn the resale of a product purchased from his licensee into an act of patent infringement.

A. Factual Background

On July 25, 1978,[1] the petitioner Schattner was issued U.S. Patent No. 4,103,001 ("'001 patent") for an aqueous sterilizing composition comprised of a combination of a well-known sterilant, gluteraldehyde, in a phenol/metal phenate solution. On December 26, 1978, Schattner granted Girard, Inc. ("Girard") an exclusive license to make, have made, use and sell compositions covered by the '001 patent in the dental and veterinary fields. In return, Schattner received fixed payments from Girard, a percentage of the profits of Girard, royalties on sales by Girard, and 10% of the stock of Girard. (App. 86a-95a).[2] Although Schattner had the right and power to limit the class of customers to whom Girard could have sold, the license agreement with Girard (which was drafted by Schattner's attorney) contained no limitation preventing Girard from selling to *any* distributor in the dental field. Accordingly, Girard's sales to its customers in the dental field, in this case Unidisco, Inc. ("Unidisco"), were expressly authorized by the license.

On January 30, 1979, Girard entered into a distributorship agreement with Unidisco under which Unidisco purchased a number of quarts of Sporicidin (the name under which the product was sold) from Girard for resale to the dental market.[3] This agreement contained no reference whatever to any patents or to the payment of royalties or to any other terms commonly found in pat-

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[1] The August 30, 1976, patent date recited by Schattner at the bottom of page 5 of the petition is an obvious error.

[2] References to "App. ——a" are to the Appendices to the petition in this Court. References to "Jt. App. ——" are to the Joint Appendix filed in the Court of Appeals.

[3] Throughout the petition, Schattner constantly refers to the distributorship agreement as "transferring" *in toto* to Unidisco the exclusive right to sell Sporicidin. This is untrue. Under the license agreement, Girard could sell to other distributors in the dental field private label product, and could sell under both private label and the Sporicidin trademark to the veterinarian field. (App. 96a-102a).

ent licenses. Rather, it was a pure buy/sell agreement wherein Girard agreed to sell and Unidisco agreed to buy given quantities of Girard products (among them Sporicidin) at given prices, and containing only normal commercial terms ancillary thereto. (App. 96a-102a).[4] Schattner learned in early 1979 that Unidisco was promoting itself as a distributor of Sporicidin. Nevertheless, he continued to accept royalties from Girard on sales made to Unidisco. (App. 2a). He did not object to the agreement between Girard and Unidisco until the early summer of 1979 when he and Girard had a falling out. Schattner, on June 4, 1979, and again on July 11, 1979, notified Girard of his intent to arbitrate under the license agreement. Included in the notice to Girard among a number of other complaints was Schattner's allegation (unbeknownst to Unidisco), that the Girard/Unidisco distributor agreement was a "sublicense" which was not permitted under the Schattner/Girard license without Schattner's approval. However, during this period, Schattner did not object to Unidisco's purchase from Girard and resale. For example, as late as December, 1979, in a communication to the American Dental Association (ADA), Schattner held out Unidisco as *his* "major dental distributor." (Jt. App. 757-758). In February, 1980, the arbitrators declared the Schattner/Girard license agreement terminated and awarded Schattner $596,000, which included an award of royalties (as specifically sought by Schattner) on Girard's sales of 14,000 quarts of Sporicidin to Unidisco—the very product that Schattner later would allege was an infringement. (App. 3a).

During early 1980, Unidisco was still in possession of approximately 14,000 quarts of Sporicidin which it had purchased from Girard in 1979 well before termination

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[4] Petitioner's Appendices failed to include the exhibits to the distributorship agreement. They are reproduced in the Appendix to this brief. (Resp. App. 1a-6a).

of the Schattner/Girard license in February, 1980. In early March, 1980, Schattner claimed for the first time that the resale of the 14,000 quarts by Unidisco would constitute patent infringement. (Interestingly, Schattner did *not* claim that the first 27,000 quarts purchased and resold by Unidisco infringed his patent.) He demanded that Unidisco not pay Girard for the 14,000 quarts, not return the 14,000 quarts to Girard, and not resell the 14,000 quarts unless it paid him the $182,000 purchase price. At this point, Schattner was clearly using threats of patent infringement to leverage payment of the $182,000 to Schattner rather than Girard.[5]

Shortly after Unidisco refused to accede to Schattner's demands, Schattner began complaining about the content of the labels on the bottles. That is, Schattner had originally obtained ADA approval for use of Sporicidin as a disinfectant when diluted thirty-to-one with water, but upon further testing, it was discovered that when diluted thirty-to-one, the product was incapable of killing tubercule bacillus (TB). The ADA had informed Schattner in January, 1979 (more than a year earlier and un-

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[5] On October 29, 1980, Girard filed for bankruptcy in Illinois. (Jt. App. 475). Schattner filed a claim in the bankruptcy action based on the arbitration award which included his claim for royalties on the 14,000 quarts. (Jt. App. 361, 887). On April 30, 1982, after negotiations with Girard's trustee in bankruptcy, Unidisco paid $70,000 in settlement of Unidisco's $182,000 debt to Girard and Unidisco's offsetting claims against Girard for expenses, damages and indemnity under the distributorship agreement. This settlement was approved by the bankruptcy court. (Jt. App. 549-553, 901).

At page 8 of the petition filed November 30, 1987, in this Court, Schattner states that he never collected a penny of this award because Girard declared bankruptcy. By letter dated December 10, 1987, Schattner informs the court that in October, 1987, more than a month before the filing of the petition, he received a check for almost $85,000 from the trustee in bankruptcy.

beknownst to Unidisco) that the product was not approved as a disinfectant when diluted thirty-to-one. The labels on the bottles in Unidisco's possession, however, still stated that the product could be used as a disinfectant when diluted thirty-to-one; but, that if TB were suspected, it should be used full strength. After February 20, 1980, both the ADA and the Environmental Protection Agency (EPA) approved Sporicidin as effective against TB when diluted sixteen-to-one. Schattner and Unidisco both wanted to correct the dilution ratio stated on the labels. Unidisco prepared updated labels which were attached to the bottles with rubber bands and resold the 14,000 quarts.

After Unidisco had resold the 14,000 quarts of Sporicidin, and had sought declaratory judgment that Schattner's patent was invalid, Schattner counterclaimed against Unidisco for patent infringement alleging that the *resale* of the 14,000 quarts purchased from Girard was an infringement, for tortious interference with contract alleging that the Girard/Unidisco sales agreement caused a breach of the Schattner/Girard patent license agreement, and for unfair competition based on the method of attachment of the admittedly correct labels.

B. Opinion Of The Court Of Appeals

The Federal Circuit, in an unanimous opinion: (1) held as a matter of law, that the resale of a product purchased from a patent licensee is not patent infringement; (2) held as a matter of law, that a sales agreement is not a patent sub-license; and (3) agreed with the district court that District of Columbia [6] tort law provided no cause of action for unfair competition for the attachment of the labels.

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[6] At Schattner's request, the district court had applied the law of the District of Columbia to this common law claim.

REASONS FOR DENYING THE WRIT

I. PATENT INFRINGEMENT

Petitioner Was Not Denied Any Constitutional Right To A Jury Trial. The Court Of Appeals Reexamined No Finding Of Fact, And Neither The Record Below Nor The Decision Of The Court Of Appeals Supports The Question Presented.

As set forth below, the Court of Appeals for the Federal Circuit, which was specifically created to bring uniformity to the application of the patent laws,[7] rightly held that the resale of a product purchased from the patentee's licensee cannot constitute patent infringement. This case involves no conflict with the decision of another federal court of appeals on the same matter, no conflict with a state court of last resort on a federal question, no important question of federal law, no federal question in any way in conflict with applicable decisions of this Court, and no reason calling for exercise of this Court's power of supervision.

Rather, Schattner strains to create a constitutional issue where there is none. The Court of Appeals for the Federal Circuit rendered its decision based on well-established patent law principles including those established by this Court almost 100 years ago. The Court of Appeals reexamined no finding of fact and did not supplant its view for any fact. The decision below was an indisputably correct application of established patent law principles.

1. *The Court Of Appeals Decided An Issue Of Law*

It is clear beyond question that the Court of Appeals may decide a question of law without infringing upon any Seventh Amendment right. No constitutional ques-

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[7] Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (1982); H.R. Rep. No. 97-312, 97th Cong., 1st Sess. 23 (1981).

tion arises when the court withdraws from the jury a case in which there is no issue of fact requiring a jury determination. This is true be it the district court or the court of appeals. *Neely v. Martin K. Eby Construction Co.*, 386 U.S. 317 (1967); *Baltimore & Carolina Line v. Redman*, 295 U.S. 654 (1934). 5 J. Moore, Federal Practice ¶ 38.08(5) at 38-57 (2d ed. 1987).

The Schattner/Girard patent license contains a clear, unequivocal, and commonly found statement that the agreement may not be assigned or sublicensed without Schattner's written approval. The interpretation of a facially clear contract is a question of law and is for the court. *Pennsylvania Avenue Development v. One Parcel Of Land, Etc.*, 670 F.2d 289, 292 (D.C. Cir. 1981); *Washington Metropolitan Area Transit Authority v. Mergentime Corp.*, 626 F.2d 959, 961 (D.C. Cir. 1980); *Framlau Corp. v. United States*, 568 F.2d 687, 691 n.10 (Ct. Cl. 1977). It is fundamental that because the unambiguous terms of a contract are presumed to embody the intent of the parties, submission of questions of interpretation to the trier of fact is unnecessary. *NRM Corp. v. Hercules Inc.*, 758 F.2d 676, 682 n.16 (D.C. Cir. 1985); *E. P. Hinkel & Company, Inc. v. Manhattan Company*, 506 F.2d 201, 204 (D.C. Cir. 1974).

The Court of Appeals held merely that as a matter of law the Unidisco/Girard distributorship agreement was not a patent sublicense and that as such, there were no facts in the record to support the conclusion asserted by Schattner. No Seventh Amendment right is implicated by the Federal Circuit's decision. Indeed, the Federal Circuit shows great deference to the Seventh Amendment in reviewing jury verdicts in patent cases. See, *Glaros v. H. H. Robertson Co.*, 797 F.2d 1564, 1570 (Fed. Cir. 1986); *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1546 (Fed. Cir. 1983).

2. *Resale Of A Product Purchased From A Licensee Does Not Create Liability For Patent Infringement*

Paragraph 2 of the license agreement between Schattner and Girard expressly granted to Girard "an exclusive license to make, have made by others solely for Girard's use or sale hereunder, use and sell compositions covered by the Patent but only for use in the dental and veterinary fields." (App. 86a). Accordingly, Girard's sales to its customers in the dental field, in this case Unidisco, were expressly authorized by the license. There is no limitation in the license preventing Girard from selling to *any* distributor in the dental field. Because Unidisco purchased from a licensed source, Girard, Unidisco had the right to resell the purchased product without payment of a second royalty to Schattner. The consideration a licensor gives to a licensee for royalties paid on such sales derives from the "exhaustion doctrine." Under that doctrine, the sale of a patented article under license to do so exhausts the patent right with respect to that article.

In early cases involving extensions of the patent term, this Court held that a person lawfully purchasing and using a patented product during the original term had a right to continue such use during any extension of the patent. *Bloomer v. Millinger*, 68 U.S. (1 Wall.) 340, 350 (1864) (". . . [W]hen a patentee has himself constructed the machine and sold it, or authorized another to construct and sell it, or to construct and use and operate it, and [a] consideration has been paid to him for the right, he has then to that extent parted with his monopoly, and ceased to have any interest whatever in the machine so sold or so authorized to be constructed and operated."); *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539 (1852); *Wilson v. Rousseau*, 45 U.S. (4 How.) 646 (1846). Later, in *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456 (1873), this Court declined to rec-

ognize territorial boundaries on the right to use the patented product once sold:

> [W]hen the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. That article . . . passes without the limit of the monopoly. . . .

In *Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659 (1895), this Court held that under the *Adams* doctrine a purchaser could *resell* as well as use the patented product free of the patent monopoly. In *Keeler*, the defendant bought a car load of wardrobe bedsteads from the patentee in Michigan and resold them in Massachusetts. The plaintiff was an assignee of the patentee for Massachusetts. The court reversed the decree for the plaintiff noting that there was "no solid distinction to be made . . . between the right to use and the right to sell."

Relying on *Adams* and *Keeler*, this Court held in *United States v. Univis Lens Co.*, 316 U.S. 241, 252 (1942):

> The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers. Whether the licensee sells the patented article in its completed form or sells it before completion for the purpose of enabling the buyer to finish and sell it, he [and the pantentee have] equally parted with the article, and made it the vehicle for transferring to the buyer ownership of the invention with respect to that article. To that extent he has parted with his patent monopoly in either case, and has received in the purchase price every benefit of that monopoly which the patent law secures to him.

As the Court of Appeals recognized, it is a fundamental principle of patent law that the resale of a product purchased from the patentee or his licensee cannot constitute

patent infringement. This holding involves no facts other than the admitted fact that Girard was Schattner's licensee at the time Girard sold the product accused to infringe to Unidisco for resale.

3. *A Sales Agreement Is Not A Patent Sublicense*

In the court below and now in this Court, Schattner seeks to avoid the consequences of his own license with Girard by ignoring the established law of patent licensing, the explicit words of the license he wrote, and all logic in arguing that Girard's sales to one who would resell the product constituted an "illegal sublicense" by Girard.

The logical and legally correct analysis states that a licensee such as Girard can do as the license says—sell to anyone. Under the Schattner/Girard license, Schattner collects royalties from Girard on products sold by Girard without regard to the purchaser's identity. The grant clause in the license makes no distinction between Girard's right to sell to customers who personally use the product as opposed to those who resell it to such customers. Schattner concedes that Girard's sales to personal users were authorized, yet he contends that the resale of product purchased from Girard to those users constitutes patent infringement. The license provides no basis for such a distinction, and Schattner's argument is totally at odds with fundamental precepts of patent licensing.

To hold otherwise would necessarily result in the absurd conclusion that Schattner could, himself, sell a product to a customer and then turn around and sue his own customer for thereafter using or reselling the product unless the customer first paid an additional royalty for an additional license. Of course, there is no basis in law for any such right. Moreover, such a state of the law would be completely illogical, unfair, unworkable, and render any patent license commercially useless. It is for

such reasons that the first authorized sale of a patented item, by the patentee or its licensee, exhausts all rights in the patented item sold. *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 455-57 (1873); 2 P. Rosenberg, Patent Law Fundamentals § 16.04 (1984 Rev.).

A sales agreement, such as Unidisco had with Girard (App. 96a-102a), simply is not a "sublicense." As stated in R. Nordhaus, Patent License Agreements § 27:

> In general, sublicensing arises (a) when a licensee authorized to practice a patented method allows a third party to use a method, or (b) when a licensee authorized to make and use, or to make and sell, a patented product allows a third party to *make* the product for its own use or for sale to parties other than the licensee. (Emphasis added).

Here it is undisputed that Unidisco made nothing but merely bought product manufactured for Girard under license for resale. Nordhaus also states at § 12:

> In general, the first authorized sale of a patented product frees the product from the scope of the patent monopoly. Hence, the purchaser of patented products from a patent owner does not require a license to resell the products.

The identical argument made by Schattner was earlier raised in and rejected by the Court of Appeals in *Lisle Corp. v. Edwards*, 777 F.2d 693, 695 (Fed. Cir. 1985), where the court, in affirming a grant of summary judgment, held that the manufacture of the patented product with private labeling for resale does not constitute a manufacturing sublicense.

The *Lisle* opinion was issued on November 19, 1985, almost a year after the trial of this action and some nine months after the filing of post-trial motions. Had *Lisle* been available to the district court *before* trial, Unidisco may well have been granted summary judgment as well. If this had been the case, Schattner could not complain that he was deprived of a jury trial for it has been long

held that the grant of summary judgment is not a denial of a jury trial. *Fidelity & Deposit Co. v. United States*, 187 U.S. 315, 319-21 (1902). Likewise, application of *Lisle* by the Court of Appeals is not a denial of a jury trial. Schattner's attempt to distinguish *Lisle* by arguing in effect that the Federal Circuit was unable to perceive the scope and import of its own opinion is presumptuous at best.

In truth and in fact, this whole case arises from Schattner's failure to draft his agreement with Girard in a manner he now says, in hindsight, he should have. If Schattner had wished to limit the class of customers to whom his licensee Girard could have sold in the dental field, he could have done so with appropriate language as set out by Nordhaus at § 15-5 and § 15-12 (7/83), e.g.: "Licensee (Girard) may sell only directly to end users and not to distributors, jobbers, or dealers for resale." However, Schattner's license agreement with Girard contains *no* such limitation. Rather, Girard had a clear and unequivocal right to make, have made, and sell to Unidisco or to anyone else in the dental field. Schattner's sublicense argument is a bootstrap argument to avoid the consequences of his own failure to draft the license as he now says he should have.[8]

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[8] *Westinghouse Electric & Manufacturing Co. v. Tri-City Radio Electric Supply Co.*, 23 F.2d 628 (8th Cir. 1927), cited by Schattner in his footnote 6, underscores what Schattner could have and should have done in this case if his latter day protestations were in fact true at the time he entered into the license agreement with Girard. In *Westinghouse*, the license contained an explicit limitation that the licensee could sell the patented product only to radio amateurs and radio experimenters. He explicitly could not sell to distributors or jobbers. Schattner could have included similar language in his license with Girard. His failure to do so acknowledges the fact that regardless of his *post hoc* arguments, the license agreement explicitly authorized Girard to sell to whomever it wished. As such, Schattner is asking this Court to read in missing terms in a contract with Girard that he and his brother/lawyer drafted. This is clearly improper.

Schattner further misunderstands the fundamental nature of the Girard/Unidisco sales agreement. Schattner testified that he understood the sales agreement to release Girard from its obligations to Schattner and to transfer those obligations onto Unidisco. The agreement itself shows that not to be true. Girard continued throughout to be the marketer. Unidisco was merely a distributor of product purchased from Girard. Even a cursory review of the sales agreement (App. 96a-102a) shows that it transferred nothing to Unidisco. Indeed, the agreement does not even mention the licensed patent. All of Girard's obligations under the license remained on Girard. See, for example, those set forth in paragraphs 8 through 12 of the license. (App. 92a-94a). Even Girard's obligation to advertise and to give the owners' "full personal commitment" and "to use best efforts" (ostensibly so highly prized by Schattner) to the marketing of the product under paragraph 6 (App. 91a-92a) remained with Girard. Nothing was transferred to Unidisco except title to the product sold by Girard. There was no sublicense.

In the Court of Appeals and in his petition in this Court, Schattner has failed to cite a single case for the proposition that a distributorship agreement constitutes a patent sublicense. Schattner's merely expressing his personal opinion is of no effect whatever. In this regard, the question the Court of Appeals asked, which Schattner never could answer, was: Suppose Girard had entered into the identical agreement with XYZ Company, a company Schattner had never heard of, instead of Unidisco. Would that distributorship agreement then constitute a sublicense? Clearly, it would not. The court might well have also asked: What if Girard by choice had sold to only one customer without any written agreement? Would that then constitute a patent sublicense if that customer resold any of the purchased product? Clearly, it would not.

Schattner continually argues in his petition that the jury implicitly held the Girard/Unidisco sales agreement to be a patent sublicense. However, Schattner continually fails to acknowledge in his petition that the meaning of a facially clear contract is a question of law—a point his counsel conceded in oral argument in the Court of Appeals. As the Court of Appeals recognized, what the jury implicitly held means nothing if there are no facts of record making such a determination possible. And here, there are none.

Resolution of this issue required no finding of fact. Indeed, no facts at all were involved other than the admitted terms of the license and the sales agreement. As the Court of Appeals clearly recognized, a sales agreement, as a matter of law, does not constitute a patent sublicense.[9]

4. *Schattner's Sublicense Argument Further Fails Because Schattner Admittedly Did Not Terminate The Girard License Prior To Girard's Sales To Unidisco*

Even were this Court to grant the petition and ultimately hold that a sales agreement constitutes a patent sublicense under the law of patent licensing, that still would not give Schattner the result he seeks. A further issue presented below but not ruled upon by the Court of Appeals, because it had no reason to reach the issue, was that even if one concludes as a matter of law that Unidisco's purchase for resale was a sublicense as Schattner asserts, what is the legal effect of that conclusion? Under the Schattner/Girard agreement, an attempt to sublicense without Schattner's approval might give Schatt-

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[9] For whatever reason, Schattner states that Unidisco did not appeal from the instructions given to the jury. That is irrelevant as a matter of law. Unidisco appealed from the erroneous judgment below. For the record, however, Unidisco did object to the jury instruction and the failure to direct a verdict in its favor on this issue. (Jt. App. 972-975).

ner the right to terminate. However, until the agreement was actually terminated, sales by Girard were licensed under the patent and resales by Unidisco could not be an infringement. If there is one thing on which Schattner has been consistent in this litigation, it is that he did *not* terminate the license agreement prior to Unidisco's purchases of the accused product. Rather, Schattner chose an alternative procedure to termination under paragraph 7 (App. 92a) of the agreement, i.e., filing for arbitration under paragraph 13 (App. 94a).

In the trial court, Schattner made the following admission under Rule 36, Fed.R.Civ.P.

> *Request:* Chem-Spec continued to make Sporicidin buffer solution for Girard through 1979 including October and November of 1979 with the knowledge and approval of Dr. Schattner.
>
> *Response:* Defendant admits only that Chem-Spec manufactured and delivered Sporicidin buffer solution to Girard, Inc. until November of 1979. By that time, Dr. Schattner had instituted arbitration proceedings *to terminate* Girard's license, *but he made no effort to interfere with Girard's marketing practices while Girard still held its license.*

(Jt. App. 290). (Emphasis added). Rule 36(b) Fed.R. Civ.P. *by its terms* makes the matter admitted *conclusively established*, and a jury *cannot* find otherwise. *Calhoun v. United States*, 591 F.2d 1243 (9th Cir. 1978).

In a passing footnote in his main brief in the Court of Appeals, Schattner stated *for the first time* on appeal that the arbitrators' decision in February, 1980, terminated that license agreement *nunc pro tunc* to July 11, 1979. But this flies in the face of Schattner's admission under Rule 36 and his own testimony. Schattner admitted and consistently maintained throughout trial that the license agreement was *not* terminated by him in the summer of 1979. Schattner testified that "during [the]

period that you are referring to, we had a binding agreement not to interfere with Girard. So I had no reason to say anything to Unidisco." (Jt. App. 304). (See also Schattner's testimony at Jt. App. 349: "[T]he license agreement with Girard was in effect until sometime in the middle of February [1980] when the arbitrators came down with their decision.") His brother and in-house lawyer for Schattner's company, who was advising Schattner throughout this period, testified as follows:

> Q. It's true, isn't it, that you did not terminate the agreement, pure and simple?
>
> A. I don't understand, pure and simple.
>
> Q. Well, when you found out on July 5, 1979 that [Girard] had entered into an amendment with Unidisco, isn't it true that at that time you did not simply terminate the license agreement.
>
> A. That is correct.
>
> Q. You did have the right to do that though didn't you?
>
> A. We did have the right to terminate.
>
> Q. And you did allow Girard, after July, to continue to operate under the license, isn't that true?
>
> A. We did not interfere with his operations. (Jt. App. 360).

The arbitrators' award itself (Jt. App. 940) dated February 13, 1980, even if it were relevant, did not state any retroactive effect but merely that the contract "is declared terminated." If there were any doubt that the license continued throughout 1979, Schattner received $106,000 in royalties from Girard for sales to Unidisco through March, 1979 (Jt. App. 289-90) and, in the arbitration, claimed and was awarded an additional $198,000 in royalties from Girard, including for sales through December 31, 1979, to Unidisco of the very product now

accused to infringe. (Jt. App. 367-69). The arbitrators' award gave Schattner royalties on sales by Girard *through 1979* (Jt. App. 940), including those royalties on the now allegedly infringing product.[10]

Thus, the sales to Unidisco by Girard even under Schattner's Question Presented still, as a matter of law, authorized their resale.

II. PATENT INFRINGEMENT AND TORTIOUS INTERFERENCE WITH CONTRACT

The Record And Decision Below Do Not Provide Support For The Second Question Presented

The second of the Questions Presented in the petition is whether the Court of Appeals ignored "alternative bases" for finding patent infringement and interference with contract. These "alternative bases" are two: (1) whether Schattner had terminated the Girard license as of July 31, 1979, and (2) whether the sales agreement interfered with the "best efforts" clause of the license.

On the first point, as set forth above, Schattner admitted under Rule 36, Fed. R.Civ.P., that he did not terminate. Both he and his lawyer/brother testified unequivocally that there was no termination. Indeed, Schattner sought and was awarded royalties under the license for the very sales alleged to be infringing. It was only in passing in one footnote to his 75 page brief that Schatt-

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[10] Schattner argues in his letter to the Clerk of this Court that his receipt of a check for almost $85,000 does not affect this case because it does not constitute "royalties" under the license agreement. The problem with this argument is that it ignores the record below. Schattner's lawyer/brother testified that the request for arbitration included a claim for *royalties* due on the sales of Sporicidin from Girard to Unidisco in the amount of $198,534.62. See Jt. App. 367-369. Schattner received this award from the arbitrators. Counsel for Schattner admitted at oral argument that Girard owed Schattner a *royalty* on sales to Unidisco.

ner even referred to termination. The issue presented in the petition was not raised or argued in the Court of Appeals. The record below simply does not support the Question Presented.

On the second point, the Court of Appeals held that there could be no tortious interference with contract because the sales agreement was not an "illegal sublicense" as Schattner had argued. Schattner faults the Court of Appeals for not taking into account an alternative basis for liability for interference with contract, i.e., interference not with the contract as a whole but with the "best efforts" clause in paragraph 6. It is not surprising that the Court of Appeals did not do so since this argument was not made in the Court of Appeals. It is raised *for the first time* in this entire case in Schattner's petition to this Court. Schattner's amended counterclaim for interference with contract recited a purported cause of action for "causing Girard to breach *the License Agreement* by *entering into* the unauthorized Sub-licensing [sic] Agreement with Unidisco." (Jt. App. 46) (Emphasis added). As the district court's opinion on post-trial motions for judgment n.o.v. reflects, Schattner "argued that the second license agreement constituted an illegal sublicense . . . in derogation of paragraph 7 of Dr. Schattner's agreement with Girard" as the basis for its cause of action. (App. 49a-50a). Not interference with the "best efforts" clause in paragraph 6. Breach of the so-called "best efforts" clause was neither argued nor submitted to the jury. In its brief in the Court of Appeals, Schattner never raised inducement of breach of the "best efforts" clause as a basis for liability. In his argument to the Court of Appeals, Schattner argued that his claim for tortious interference with contract was based only on the allegation that the Girard/Unidisco sales agreement interfered with the contract. He raises this argument for

the first time in his petition to this Court.[11] It is fundamental that this Court will not consider on petition for writ of certiorari an issue not raised below nor considered by the Court of Appeals. *Adickes v. S.H. Kress and Company*, 398 U.S. 144, 147 n.2 (1970).

III. UNFAIR COMPETITION

The Third Question Presented Presents No Issue For Review By This Court

Schattner's unfair competition claim, as pointed out by the Court of Appeals, arises from Unidisco's preparation of updated labels which were attached to the 14,000 quarts of Sporicidin with rubber bands to provide the user with current information, as specifically requested by Schattner. Schattner rested his claim for unfair competition on grounds that *he* did not like the aesthetic appearance of the relabeling.

The district court judge in his post-trial ruling granting Unidisco's motion for judgment n.o.v. observed that Schattner had not cited even one District of Columbia case in support of a tort such as he alleged and presented to the jury. (App. 31a). It was only "with great reservations" that the district court submitted the claim to the jury at all. (*Id.*) On post-trial motion, after analyzing the law of the District of Columbia, the district court held that there was "absolutely no basis in the record" supporting Schattner's allegation of "unfair competition." (App. 39a). Schattner simply failed to state a cause of action.

On appeal, Schattner argued that the clear law of the District of Columbia restricting unfair competition claims as recited by the district court was not really the District of Columbia law after all, but rather that the

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[11] It is not surprising that Schattner did not raise this argument below because there is nothing in the sales agreement which transfers Girard's obligation to use best efforts to Unidisco.

District of Columbia had adopted the "principles" of some open-ended "general law of unfair competition." Schattner then argued that under this "general law" rubric he was entitled to combine unrelated phrases from diverse jurisdictions into a composite tort unrecognized anywhere.

The Court of Appeals reviewed the principal cases from the District of Columbia, i.e., *Ray v. Proxmire*, 581 F.2d 998 (D.C. Cir.), *cert. denied*, 439 U.S. 933 (1978), and *Scanwell Laboratories, Inc. v. Thomas*, 521 F.2d 941, 949 (D.C. Cir. 1975), *cert. denied*, 425 U.S. 910 (1976), and found that those courts had declined to apply any such "general law" of unfair competition, but to the contrary had limited the tort to defined categories of conduct. The Court of Appeals therefore declined to expand the scope of the tort as Schattner requested. This decision was indisputably correct.

Schattner relies on *B & W Management, Inc. v. Tasea Investment Co.*, 451 A.2d 879, 881 n.3 (D.C. App. 1982), in support of its position that by referencing in a footnote Prosser's Handbook of the Law of Torts, the District of Columbia had adopted *in toto* Prosser's discussion of the "general law of unfair competition." What Schattner ignores is that the District of Columbia in *B & W Management* did indeed cite Prosser in a footnote, but specifically for the proposition that the alleged cause of action did *not* support a common law action for unfair competition. Schattner refers in a footnote to Prosser's stating that "disparagement of a competitor's goods" may constitute unfair competition but ignores the fact that in the district court he expressly disavowed that theory as a basis for his alleged cause of action. As the district court observed, Schattner "argued at great length in his papers that this tort is not product disparagement." (App. 41a). He cannot be permitted to do so on writ of certiorari.

IV. CONCLUSION

The Court of Appeals for the Federal Circuit did precisely what it was supposed to do in this case. It examined an issue of patent law and patent licensing and held that as a matter of law the purchaser from a licensee is privileged to resell the purchased product free of a claim for patent infringement from the patentee. This is in accord with decisions of this Court extending back almost 100 years. Petitioner has merely strained to make a constitutional case where the issues involved are only ones of established patent law and licensing and the reading of the clear terms of a sales and license agreement. The other issues raised are demonstrably unsupported by the record and/or were not raised in the Court of Appeals or were abandoned in the district court. Thus, there is no question for review by this Court.

For these reasons, the petition for a writ of certiorari should be denied.

Respectfully submitted,

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December 30, 1987

APPENDIX

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EXHIBIT "A"

Exhibit "A" to DISTRIBUTOR AGREEMENT between GIRARD, INC. and UNIDISCO, INC.

The term "Products" shall include:

1. Germicidal Lubricant—Mastercide, EPA Registration No. 10416-1. (Kits and refill bottles).

2. Sterilizing and disinfectant solution—Sporicidin; EPA Registration No. 8383-5.

3. Dental Handpiece—Soft-Touch Handpiece.

4. Aqua-Sana (and refill cartridges).

No new products or other products of GIRARD shall be included in this Distributor Agreement unless subsequently agreed to in writing between the parties.

GIRARD shall at all times during the term of this Agreement maintain its EPA Registration of Mastercide and Sporicidin.

EXHIBIT "B"

Exhibit "B" to DISTRIBUTOR AGREEMENT between GIRARD, INC. and UNIDISCO, INC.

Initial UNIDISCO purchase order:

A) SPORICIDIN—5,000 quarts

B) MASTERCIDE KIT—300

C) MASTERCIDE REFILL (7 oz.)—104 each

D) MASTERCIDE REFILL (16 oz.)—48 each

E) SOFT-TOUCH HANDPIECE—300

F) AQUA-SANA—400

EXHIBIT "C"

Exhibit "C" to DISTRIBUTOR AGREEMENT between GIRARD, INC and UNIDISCO, Inc.

Minimum amounts of orders per sales period:

Sales Period	Product	Minimum Amount
First	Sporicidin	35,000 quarts
	Mastercide	750 kits
	Soft-Touch Handpiece	900 units
	Aqua-Sana	1,000 units
Second	Sporicidin	40,000 quarts
	Mastercide	750 kits
	Soft-Touch Handpiece	900 units
	Aqua-Sana	1,000 units
Third	Sporicidin	50,000 quarts
	Mastercide	900 units
	Soft-Touch Handpiece	1,000 units
	Aqua-Sana	1,200 units
Fourth	Sporicidin	50,000 units
	Mastercide	900 kits
	Soft-Touch Handpiece	1,000 units
	Aqua-Sana	1,200 units
Fifth	Sporicidin	55,000 quarts
	Mastercide	900 kits
	Soft-Touch Handpiece	1,000 units
	Aqua-Sana	1,200 units
Sixth	Sporicidin	55,000 quarts
	Mastercide	900 kits
	Soft-Touch Handpiece	1,000 units
	Aqua-Sana	1,200 units
Seventh	Sporicidin	60,000 quarts
	Mastercide	900 kits
	Soft-Touch Handpiece	1,000 units
	Aqua-Sana	1,200 units
Eighth	Sporicidin	65,000 quarts
	Mastercide	900 kits
	Soft-Touch Handpiece	1,000 units
	Aqua-Sana	1,200 units

EXHIBIT "D"

Exhibit "D" to DISTRIBUTOR AGREEMENT between GIRARD, INC. and UNIDISCO, INC.

Product Pricing:

Product	Unidisco Cost	Suggested Retail Price	Suggested Dealer Cost
Sporicidin	$ 13.00/quart	$ 24.95/quart	$ 16.25/quart
Mastercide	8.10/kit	18.00/kit	10.80/kit
Mastercide Refills:			
— 7 oz.	3.57	4.77	7.95
— 16 oz.	6.28	8.37	13.95
Soft-Touch Handpiece	105.00/unit	135.48/unit	225.80/unit
Aqua-Sana	18.00/unit	24.00/unit	39.95/unit

The terms of payment shall be net thirty (30) days except for SPORICIDIN which shall be invoiced at UNIDISCO COST less a three (3) percent discount.

"EXHIBIT "E"

Exhibit "E" to DISTRIBUTOR AGREEMENT between GIRARD, INC. and UNIDISCO, INC.

Proposed packaging for shipping:

A) SPORICIDIN—4 quarts/master carton

B) MASTERCIDE KITS—6 kits/master carton

C) MASTERCIDE REFILLS—24 each/master carton

D) SOFT TOUCH—individually

E) QUA-SANA—12 each/master carton